

## Message Text

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ACTION EB-07

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INFO AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: ETRD EIND GATT KS MNT JA

SUBJECT: GOJ CURBS ON KOREAN SILK EXPORTS

REF: 75 SEOUL 2892, SEOUL 1063

SUMMARY: A FEBRUARY 23 ANNOUNCEMENT BY THE JAPANESE GOVERNMENT THAT IT HAD APPLIED A PRIOR APPROVAL SYSTEM TO ALL IMPORTS OF THROWN (TWISTED) SILK YARN, EFFECTIVE FEBRUARY 25, WHICH IN REALITY HAD NO EFFECT ON KOREAN EXPORTS, BROUGHT FORTH AN OUTCRY OF PROTEST AGAINST JAPANESE PROTECTIONISM IN THE SOUTH KOREAN PRESS AND A PROTEST AGAINST RALLY BY KOREAN SERICULTURISTS. TALKS AT THE WORKING LEVEL ON PREVIOUS JAPANESE RESTRICTIONS IMPOSED ON KOREAN SILK PRODUCTS ARE SCHEDULED TO RESUME MARCH 4. NEWSPAPER ARTICLES HAVE CONTINUED TO PLAY UP THE JAPANESE MOVE AND HAVE FEATURED REPORTS, ATTRIBUTED TO SOURCES WITHIN THE KOREAN GOVERNMENT, OF VARIOUS RETALIATORY ACTIONS BEING CONTEMPLATED. THE PRESS ALSO HAS SOUGHT TO EQUATE THE LARGEST EVER 1975 BALANCE OF TRADE DEFICIT WITH JAPAN AS BEING OF A WHOLE WITH THE RESTRICTIONS. AN OFFICIAL OF THE MINISTRY OF FOREIGN AFFAIRS (MOFA) IN A DISCUSSION OF THE MATTER WITH AN

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EMBASSY OFFICER CHARACTERIZED THE PRESS REPORTS AS "GREATLY

EXAGGERATED" AND INDICATED THAT THE KOREAN APPROACH WOULD BE TO SEEK TO LIMIT THE JAPANESE RESTRICTIONS TO THOSE ALREADY IMPOSED. THIS STRATEGY, HE SAID, REFLECTS A CONCERN THAT RETALIATION WOULD BUT BEGET FURTHER JAPANESE RESTRICTIONS AGAINST OTHER KOREAN TEXTILE EXPORTS. THE MOFA OFFICIAL SAID THE KOREAN GOVERNMENT IS NOT DISPOSED AT PRESENT TO REFER THE MATTER TO THE GATT. END SUMMARY.

1. AS PREVIOUSLY INDICATED (SECOND REFTEL) THE KOREAN-JAPANESE TALKS ON FEBRUARY 8-9 CONCERNING SILK TRADE WERE INCONCLUSIVE. FURTHER TALKS AT THE WORKING LEVEL ARE SCHEDULED IN TOKYO FOR MARCH 4-5. ON FEBRUARY 23 THE JAPANESE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) ANNOUNCED THAT A PRIOR APPROVAL SYSTEM WOULD BE IMPOSED ON ALL IMPORTS OF THROWN (TWISTED) SILK EFFECTIVE FEBRUARY 25. ACCORDING TO ACCOUNTS IN THE KOREAN PRESS, THE MITI ANNOUNCEMENT STATED THAT AMONG THE REASONS FOR THE MOVE WAS THAT KOREAN EXPORTS OF THE PRODUCT WERE BEING CHanneLED THROUGH THIRD COUNTRIES TO AVOID JAPANESE RESTRICTIONS WHICH HAD BEEN IMPOSED ON KOREAN EXPORTS SEPTEMBER 27, 1975. THIRD COUNTRIES CITED BY MITI, ACCORDING TO THE PRESS STORIES, WERE HONG KONG AND THE UNITED STATES. REPORTEDLY, THE JAPANESE ALSO GAVE AS A REASON FOR THE MOVE THE INCREASING IMPORTS OF THROWN (TWISTED) SILK FROM THE PEOPLES REPUBLIC OF CHINA WHICH UNTIL THEN WERE NOT RESTRICTED.

2. THE KOREAN PRESS REACTION, BOTH NEWS AND EDITORIAL, TO THE JAPANESE ANNOUNCEMENT WAS IMMEDIATE AND STRIDENT. EACH DAY NEW ACCOUNTS HAVE APPEARED REPORTING THAT THE SOUTH KOREAN GOVERNMENT WAS CONSIDERING RETALIATION AGAINST JAPANESE EXPORTS. AMONG THE MEASURES SUPPOSEDLY BEING STUDIED ARE A PRIOR IMPORT APPROVAL SYSTEM, RESTRICTION OF IMPORTS OF JAPANESE MACHINERY, AND A SHIFT FROM CIF TO FOB VALUATION BASIS FOR IMPORT DUTIES (WHICH WOULD, THEORETICALLY, ELIMINATE SOME JAPANESE COMPETITIVE ADVANTAGE BECAUSE OF LOWER FREIGHT CHARGES), AS WELL AS AN APPEAL TO THE TEXTILE SURVEILLANCE BODY OF THE GATT.

3. WHEN ON FEBRUARY 25, 1975 TRADE STATISTICS SHOWING A \$1,199 MILLION SURPLUS IN JAPAN'S FAVOR WERE ANNOUNCED, THE KOREAN PRESS EQUATED THE INCREASINGLY UNFAVORABLE KOREAN BALANCE WITH THE JAPANESE RESTRICTIONS ON SILK IMPORTS. AS NOTED IN THE LIMITED OFFICIAL USE

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SECOND REFTEL THE VALUE OF KOREAN SILK EXPORTS TO JAPAN IN 1975 INCREASED. AT A RALLY IN SEOUL, FEBRUARY 27, A REPORTED 1200 SERI-CULTURISTS DENOUNCED THE JAPANESE RESTRICTIONS ON KOREAN SILK EXPORTS AS BEING COUNTER TO THE SPIRIT OF THE GATT. THEY ADOPTED A RESOLUTION DEMANDING THAT JAPAN LIFT THE RESTRICTIONS AND THAT, IN THE EVENT IT DOES NOT, THE KOREAN GOVERNMENT TAKE RETALIATORY ACTION.

5. IN A CONVERSATION WITH AN EMBOFF, PARK YUM (M/R SPELLING - PAK YON) CHIEF, COMMERCE DIVISION III OF MOFA CONFIRMED THAT THE KOREAN GOVERNMENT WAS PREPARING TO TAKE UP THE PROBLEM IN DETAIL AT THE FORTHCOMING WORKING LEVEL TALKS IN TOKYO. PARK INDICATED THAT HIS GOVERNMENT'S POSITION WAS TO ACCEPT AS FACTS ACCOMPLISH THE JAPANESE LIMITATIONS ON THREE SILK PRODUCTS (RAW SILK, THROWN SILK YARN AND OSHIMA TSUGUMI CLOTH) PRESENTLY RESTRICTED BY JAPAN BUT TO LET THE JAPANESE KNOW THAT KOREA WOULD NOT ACCEDE TO ANY JAPANESE EMBARGOES AGAINST SOUTH KOREAN SILK FABRICS. PARK STATED THAT THE KOREAN GOVERNMENT WAS NOT PRESENTLY CONSIDERING RETALIATORY ACTION AGAINST JAPAN BECAUSE OF CONCERN THAT SUCH ACTION WOULD TRIGGER JAPANESE RESTRICTIONS AGAINST OTHER KOREAN TEXTILE EXPORTS (ACCORDING TO REPORTS IN THE KOREAN PRESS, FEBRUARY 26, JAPANESE SWEATER PRODUCERS WILL SEEK A CEILING ON IMPORTS OF KOREAN SWEATERS).

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6. IN RESPONSE TO OUR QUESTION PARK ALSO DISCUSSED THE POSSIBILITY OF TAKING THE SILK PROBLEM TO THE GATT. PARK SAID THAT, AS YET, THE SOUTH KOREAN GOVERNMENT HAD FOUND NO BASIS FOR SUCH AN APPEAL. THE JAPANESE HAVE CLAIMED THAT THEIR ACTIONS ARE COUNTENANCED BY ARTICLE XVII OF THE GATT SINCE IMPORTS OF SILK PRODUCTS ARE THE EXCLUSIVE PREROGATIVE OF A CORPORATION

ESTABLISHED BY JAPANESE SILK IMPORTERS WITH JAPANESE GOVERNMENT APPROVAL. FURTHER, ACCORDING TO PARK, THE JAPANESE GOVERNMENT HAS INSISTED THAT THE ACTIONS IT HAS TAKEN HAVE BEEN INTERNAL ADMINISTRATIVE MEASURES TO RESOLVE AN INTERNAL PROBLEM.

COMMENT: THE SILK TRADE PROBLEM IS ONE OF SEVERAL IRRITANTS IN JAPANESE-KOREAN TRADE RELATIONS -- CHIEF OF WHICH IS THE GROWING TRADE IMBALANCE IN JAPAN'S FAVOR--BUT IT IS NOT ONE ON WHICH THE KOREANS ARE LIKELY TO THROW THEMSELVES ON THEIR OWN SWORDS. SUBSEQUENT TO THE JAPANESE RESTRICTIONS ON RAW SILK IMPOSED IN 1973, AT A TIME WHEN KOREAN EXPORTS OF THROWN SILK YARN WERE VIRTUALLY NIL, EXPORTS OF THROWN SILK YARN TO JAPAN HAVE INCREASED MARKEDLY AND WITHAL THE COMBINED VALUE OF ALL KINDS OF KOREAN SILK EXPORTS TO JAPAN HAS CONTINUED TO INCREASE ANNUALLY. IN ADDITION, THERE IS THE QUESTION OF LIMITED OFFICIAL USE

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THE EXPORTS OF SILK TO JAPAN FROM NON-TRADITIONAL SUPPLIERS (ALTHOUGH IN THE CASE OF HONG KONG THERE IS THE SHADOW OF THE PRC). AS FOR POSSIBLE JAPANESE CURBS ON KOREAN SILK FABRICS, THE FACT THAT MANY OF THE PRODUCERS ARE KOREAN-JAPANESE JOINT VENTURES COULD CAUSE JAPAN TO WEIGH ANY ACTION VERY CAREFULLY. THUS, IT IS POSSIBLE THAT THE CRESCENDO OF INVECTIVE FOLLOWING THE RECENT JAPANESE MOVE WAS CAREFULLY ORCHESTRATED BY THE KOREAN GOVERNMENT AS AN OVERTURE FOR THE UPCOMING TALKS. HOWEVER, THE FACT STILL EXISTS THAT IN 1974 AND 1975 THE VALUE OF KOREAN EXPORTS TO JAPAN HAVE NOT KEPT PACE WITH THE INCREASES IN IMPORTS FROM JAPAN AND IT IS UNLIKELY THAT KOREAN SENSITIVITIES WILL BE SOOTHED UNTIL THE TRADE IMBALANCE IS REDUCED.

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